

Report to Stockholders

YEAR ENDED DECEMBER 31, 1941



BOEING AIRPLANE COMPANY
and SUBSIDIARY COMPANIES



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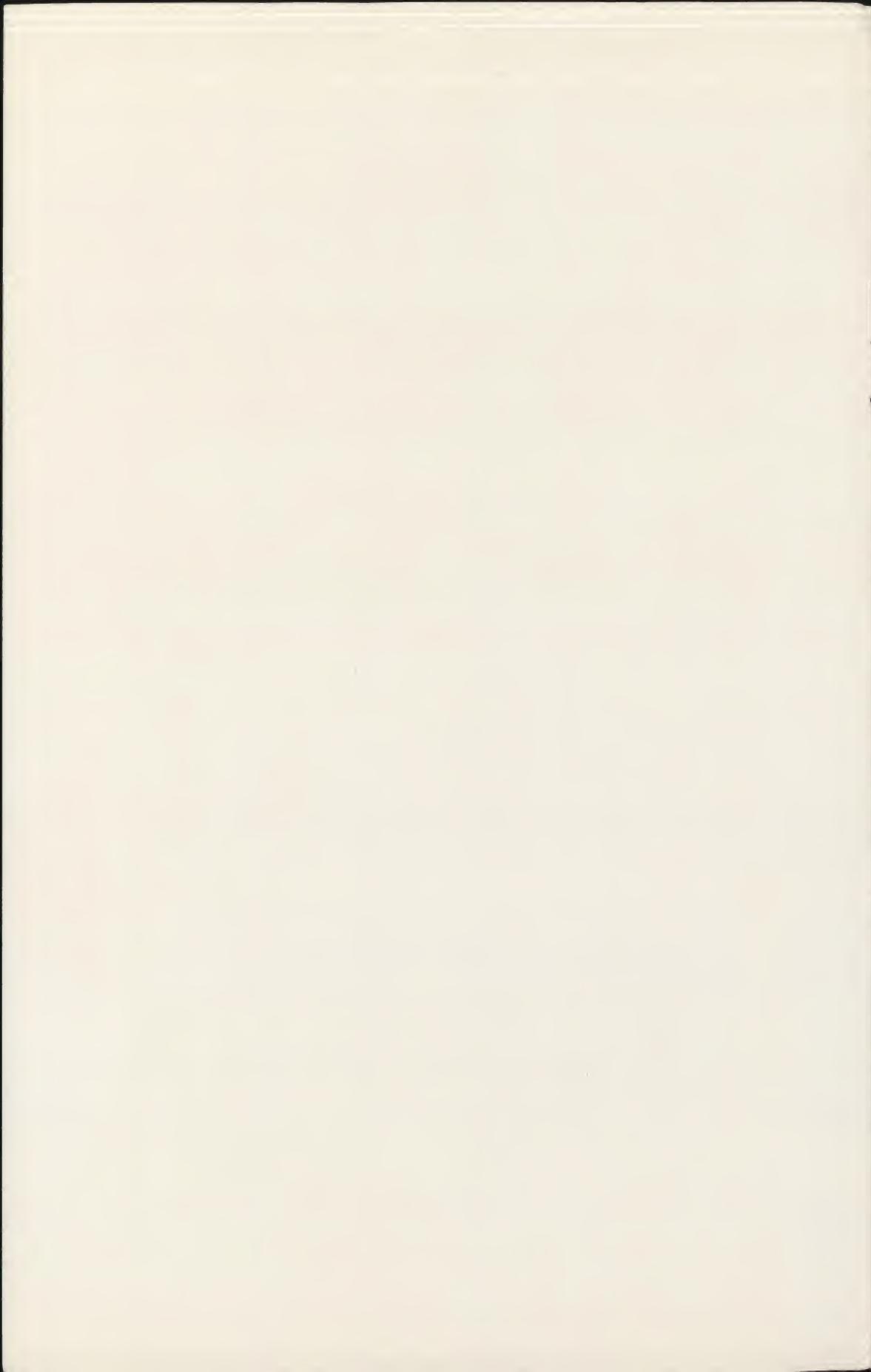
The past year has brought to America's very door a world-wide war in which air power is acknowledged to be a vital factor. As a result Boeing Airplane Company is a center of intensive activity and of special responsibility.

The outstanding position which this Company and its subsidiaries occupy in the United Nations' war effort is evidenced in the number of aircraft the companies are under contract to build, and which are daily rolling off the production lines in ever-increasing numbers. Continued reports from the fighting fronts reassert the important role of the now famous Flying Fortress, which is exclusively a development of the Boeing Company. The management and employees of the Company and its subsidiaries and divisions are aware of their responsibilities and are determined to build and deliver the greatest number of aircraft in the shortest possible time.

The United States Government has restricted the publication of any information that might be of value to the enemy. These restrictions cover many of the facts normally given to stockholders in an annual report. In compliance with the Government's wishes, we have limited our report to financial statements, and to general information as to the Company's affairs.

This year has been marked with the greatest production accomplishment in the history of Boeing Airplane Company. This was made possible in large measure by the devotion to duty and the loyalty of the men and women of Boeing.

P. G. JOHNSON
President



ANNUAL REPORT

To the Stockholders of Boeing Airplane Company:

The annual report for the year 1941 covering the operations of Boeing Airplane Company and its subsidiary units is submitted herewith.

Boeing Airplane Company embraces Boeing Aircraft Company, a wholly-owned subsidiary, located at Seattle, Washington; the Wichita division of Boeing Airplane Company, located at Wichita, Kansas; a new division of Boeing Aircraft Company, located on Lake Washington; and a wholly-owned subsidiary of Boeing Aircraft Company, Boeing Aircraft of Canada Limited, located at Vancouver, British Columbia.

The Period 1934 to 1939

The annual report to stockholders for the year 1934 expressed the following conviction of its officers—that in order for the Company to successfully manufacture and sell aircraft and meet competition, it would be necessary to spend substantial sums in the development of new models of aircraft. It was during this period that the Company developed the four-engine Flying Fortress, which was, in its opinion, the type of aircraft most vitally needed for national defense. The progressive development of the Flying Fortress and the four-engine commercial aircraft continued during the following years and the cost of these developments during a period of very light demand for military and commercial aircraft, contributed largely to the net loss of \$3,900,000 for the years 1934 to 1939 inclusive. In the opinion of the management the large number of heavy bombardment aircraft that Boeing Aircraft Company is now under contract to build fully justifies the effort and expense of their development.

Contract Adjustments

In 1940 a contract for a large quantity of Flying Fortresses was entered into on a fixed price basis. Additional modern facilities, including both buildings and equipment, were required for the performance of this contract and it was not possible at that time to accurately evaluate the effect which large quantities would have on cost when being produced with facilities designed for that purpose. Accordingly, there was included in the contract a provision that after a certain number of aircraft had been delivered the costs of performing the contract would be reviewed, and if they were materially less than anticipated, the Company and the Government would endeavor to arrive at a mutually satisfactory price for the aircraft. Deliveries are now being

made under this contract and the Company has advised the Government that a substantial downward revision in price is indicated from the information available to date.

Reserves

The Company has expenses and contingent liabilities which are indeterminate in amount, but which are none-the-less real, for which it was necessary to provide a reserve. In addition to the matters referred to in Note 5 to the consolidated financial statements it must be recognized that the Company may suffer serious losses from damage to its plants through enemy action.

Facilities

The Company's annual report to stockholders for the year 1940 called attention to the fact that the Company had entered into Emergency Plant Facilities contracts with the United States for additional plant facilities at Seattle and Wichita. Facilities acquired at Seattle under one contract were completed at the end of the year under review and the full cost thereof was financed through bank loans. Payments due under this Emergency Plant Facilities contract have been assigned to the bank and the Company has only a contingent liability on this indebtedness. A second Emergency Plant Facilities contract was entered into during the year and the amount appearing on the balance sheet represents expenditures thereunder. The directors of Boeing Aircraft Company are giving consideration to the purchase of certain of these facilities outright and assuming full liability on the bank indebtedness although final decision cannot be made at this time.

The Emergency Plant Facilities contract at Wichita was taken over by the Defense Plant Corporation and the Company has no further liability thereunder. The Company has entered into a lease agreement for the use of these facilities.

The new Lake Washington plant now under construction for the purpose of building Navy aircraft is being constructed by the Defense Plant Corporation for lease to Boeing Aircraft Company.

Boeing Aircraft of Canada Limited

The practice begun in 1940 of giving separately the balance sheet of Boeing Aircraft of Canada Limited in Canadian dollars has been continued because of the exchange restrictions. No portion of the income, which amounted to \$72,798.56 (Canadian dollars), has been included in the consolidated financial statements of this Company.

The Canadian Government has awarded this subsidiary substantial contracts as well as providing the facilities with which to perform them. Contracts are taken on a basis of reimbursement to this subsidiary of its costs, plus a fee or profit to be determined by the Minister of Munitions and Supply.

Financial Statements

The Company, as of September 30, 1939, had a consolidated earned surplus deficit of \$3,471,686.29, and the Board of Directors, on December 22, 1939, approved the transfer of a like amount from the "Paid-In Surplus" account so as to eliminate the deficit as of September 30, 1939. The losses which were reflected in this deficit have been offset by current earnings and the directors believe that it will be desirable to restore to "Paid-In Surplus" the amount charged to that account as of September 30, 1939 by a charge in like amount to "Earned Surplus" account. After making the transfers above referred to the capital accounts will show the amount of capital invested in the Company and the net earned surplus of the Company to date.

The statement of consolidated income and surplus of the Company and its subsidiary company for the year 1941, and the consolidated balance sheet as of December 31, 1941, are submitted herewith, together with the report of Allen R. Smart & Co., independent certified public accountants.

By order of the Board of Directors.

P. G. JOHNSON,
President.

March 14, 1942.

BOEING AIRPLANE COMPANY AND SUBSIDIARY
CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash	\$ 6,178,259.90
Cash—Restricted for use on and securing performance of contracts with the United States.....	20,125,797.89
Accounts Receivable—Trade	17,787,729.13
Miscellaneous Accounts Receivable and Advances.....	348,268.20
Costs Chargeable to the United States in respect of cost-plus-a-fixed-fee contracts, and applicable fee.....	5,145,009.66
 Inventories (Note 1) :	
Contracts and Work in Process, at the lower of cost or estimated proportionate sales value:	
Work in Process on Certain Sales Contracts including unprocessed materials, title to substantially all of which has passed to vendee or against which vendee has a lien—less progress payments of \$22,191,619.07 and reserves of \$1,220,000.00 to reduce costs incurred on certain contracts to proportionate sales value.....	\$14,698,944.27
Other Work in Process—less reserves of \$180,000.00 to reduce costs incurred on certain contracts to proportionate sales value.....	7,895,244.79
Purchased Materials and Parts, at substantially the lower of cost or market.....	5,620,044.32
Work in Process and Unprocessed Materials on cost-plus-a-fixed-fee contracts, title to which vests in vendee \$7,600,822.59—less billed or accrued \$7,600,822.59.....	—
	28,214,233.38
TOTAL CURRENT ASSETS.....	\$77,799,298.16

INVESTMENTS AND OTHER ASSETS:

Investment in and Advances to Boeing Aircraft of Canada Limited, not consolidated (Note 2)	\$ 279,905.19
Deposits with Mutual Insurance Companies, etc.....	92,338.00

372,243.19

EXPENDITURES UNDER EMERGENCY PLANT FACILITIES

CONTRACTS (Note 3) :

Completed Facilities	\$ 7,777,587.30
Uncompleted Facilities	1,563,641.26

9,341,228.56

FIXED ASSETS—At Cost:

Land and Buildings.....	\$ 2,310,519.36
Machinery, Tools and Equipment.....	1,935,133.77
Facilities Acquired During the Emergency Period with Own Funds in the Interests of National Defense.....	3,232,899.73
	\$ 7,478,552.86
Less—Reserves for Depreciation and Amortization.....	1,826,830.67

5,651,722.19

DEFERRED CHARGES	218,956.37
	<u>\$93,383,448.47</u>

NOTE: The above consolidated balance sheet is subject to the

COMPANY (EXCLUDING CANADIAN SUBSIDIARY)

BALANCE SHEET**31, 1941****LIABILITIES AND CAPITAL****CURRENT LIABILITIES:**

Accounts Payable—Trade	\$ 7,394,937.22
Accrued Wages, Taxes, etc.....	6,042,115.13
Provision for Federal Income and Excess Profits Taxes and State Income Tax (Note 4).....	\$16,150,000.00
Less—United States Treasury Notes (Tax Series B-1943) ...	2,003,200 00
Advances on Sales Contracts.....	14,146,800.00
	38,027,385.97
TOTAL CURRENT LIABILITIES.....	\$65,611,238.32

NOTES PAYABLE TO BANK (Note 3) (Payable in installments from reimbursements receivable from the United States under Emergency Plant Facilities contracts, the right of the Company to receive such reimbursements having been assigned to the Bank)

8,412,882.77

RESERVE FOR CONTRACT ADJUSTMENTS AND INDETERMINATE EXPENSES RESULTING FROM WAR-TIME CONDITIONS (Note 5).....

3,500,000.00

CAPITAL STOCK AND SURPLUS:

Capital Stock:

Authorized 1,250,000 shares of \$5.00 par value	
Issued and Outstanding 1,081,864½ shares.....	\$ 5,409,321.25
To be issued for shares of Capital Stock of United Aircraft & Transport Corporation upon presentation for exchange—	
589¾ shares	2,948.75

Paid-In Surplus	\$ 5,412,270.00
	4,637,433.90

Earned Surplus—Since September 30, 1939 (after elimination of earned surplus (deficit) at September 30, 1939 by transfer from paid-in surplus in an amount of \$3,471,686.29)	5,809,623.48	15,859,327.38
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\$93,383,448.47

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(Excluding Canadian Subsidiary)

Consolidated Profit and Loss Statement

Year ended December 31, 1941

Sales of Planes and Parts (Note 6)	\$93,893,089.98
Proceeds of Sales of Engineering and Other Information and Manufactur- ing Rights	<u>3,317,224.20</u>
	\$97,210,314.18
Cost of Sales (Note 6)	\$69,455,898.79
Provision to Reduce Inventories of Experimental Projects to Estimated Proportionate Sales Value (Note 1)	1,400,000.00
Customers Liaison and Public Relations Expenses	157,233.96
Corporate Expenses of Parent Company Home Office	26,714.07
Depreciation	209,801.04
Amortization of Emergency Facilities..	<u>626,362.55</u>
	<u>71,876,010.41</u>
	\$25,334,303.77
Provision for Contract Adjustments and Indeterminate Expenses Resulting from War-time Conditions (Note 5) ..	<u>3,500,000.00</u>
	<u>\$21,834,303.77</u>
Other Income:	
Discount on Purchases.....	\$ 231,811.81
Royalty and License Fees.....	20,894.39
Interest Earned	7,251.03
Sundry	<u>26,059.52</u>
	<u>286,016.75</u>
	\$22,120,320.52
Prior Years Adjustments:	
Excess Provision for Estimated Loss on Flying Boats after transfer of Costs in the amount of \$432,767.85.....	\$ 405,312.38
Excess Provision for Contract Guar- anty Replacement	32,700.00
Reinstatement of Engineering and Development Expense	<u>76,319.68</u>
	<u>\$ 514,332.06</u>
<i>Less</i> —Adjustment of Federal Capital Stock Taxes.....	<u>371,508.80</u>
	<u>142,823.26</u>
	\$22,263,143.78
Provision for Estimated Federal Income Taxes (\$4,070,000.00), Federal Ex- cess Profits Taxes (\$12,025,000.00) and State Income Tax (\$55,000.00) (Note 4)	<u>16,150,000.00</u>
Profit Transferred to Earned Surplus	<u>\$ 6,113,143.78</u>

NOTE: The above consolidated profit and loss statement is subject to the notes to consolidated financial statements on succeeding pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(Excluding Canadian Subsidiary)

Consolidated Earned Surplus Account

Year ended December 31, 1941

SURPLUS (DEFICIT)—January 1, 1941.....\$ 303,520.30

ADD:

Profit for Year ended December 31, 1941.....6,113,143.78

SURPLUS—December 31, 1941.....\$5,809,623.48



Consolidated Paid-In Surplus Account

Year ended December 31, 1941

BALANCE—January 1, 1941.....\$4,507,270.96

ADD:

Restoration to cost of certain property and equipment
written down by former subsidiary prior to acquisition
by the Company.....130,162.94

BALANCE—December 31, 1941.....\$4,637,433.90

NOTE: The above consolidated surplus accounts are subject to the notes to consolidated financial statements on the following pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
(Excluding Canadian Subsidiary)

Notes to Consolidated Financial Statements

December 31, 1941

NOTE 1:

Work in process is valued at the lower of cost or estimated proportionate sales value. Materials and parts purchased for specific projects are valued at average cost except in cases where it is expected that the project will result in a loss. In such cases the materials and parts together with the work in process are valued at estimated proportionate sales price. General stock items are valued at the lower of cost or market. Cost is determined upon the basis of average costs and market upon the basis of replacement prices.

Work in process includes certain experimental contracts which have been reduced to estimated proportionate sales value by means of reserves of \$1,400,000.00. In connection with these contracts it is estimated that expenditures during the year 1942 may be substantially more than will be recovered directly, but the Company considers that some or all of the excess expenditures may be recovered through sale of information and rights and through production contracts.

NOTE 2:

The amount of the investment in and advances to Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, is carried at less than underlying book value. For the year 1941 no income from or of the Canadian Subsidiary is included in the consolidated financial statements.

NOTE 3:

Under the terms of contracts entered into by the Company's subsidiary with the United States, for the acquisition, construction and installation of Emergency Plant Facilities, the Government has agreed to reimburse the Company's subsidiary for such expenditures, as limited in amounts by the contracts, over a period of sixty consecutive calendar months following completion. In connection therewith the Company's subsidiary has entered into agreements with The National City Bank of New York pursuant to which the Bank has loaned the subsidiary the amount of \$7,777,587.30 with respect to completed facilities and has agreed to loan the amount expended, but not to exceed \$3,000,000.00, with respect to the uncompleted facilities. The agreements provide that the Bank shall have recourse for the payment of the principal of all such loans solely to the payments which are to be made by the Government under the terms of the Emergency Plant Facilities contracts, which

have been assigned to the Bank, except in the case of default by the Company's subsidiary in connection with the performance of the contracts with the Government or the agreements with the Bank. Notes covering such loans are payable on or before September 1, 1946 in the amount of \$7,777,587.30 and on or before November 1, 1947 in the amount of \$635,295.47.

NOTE 4:

The provision of the Company for federal income and excess profits taxes and state income tax for the year in the amount of \$16,150,000.00, has been estimated on the amount of taxable income determinable at this time. It is anticipated however that certain contract price adjustments applicable to the year 1941 will be made, and the Company has been advised that when and if such adjustments are finally consummated that a corresponding reduction in taxable income can be made, and the tax liability for the year 1941 redetermined. At the present time it is the intention of the Company when it files its federal income and excess profits tax returns on May 15, 1942 to anticipate the contract price adjustments referred to on the basis of estimates made at that time in the event that no final determination has been effected.

NOTE 5:

Provision for this reserve has been made by the Board of Directors in respect of contract adjustments and other indeterminate expenses resulting from war-time conditions. A certain contract between the United States and the Company's subsidiary requires that negotiations be undertaken for the purpose of adjusting downward the prices thereunder and the Company's subsidiary has indicated to the Government that it expects to make a price adjustment under such contract. There are other matters, such as the return of payments for engineering and other information and manufacturing rights in the event of termination by the Government of the contracts of other manufacturers, concerning which adjustments may be necessary. To the extent that any such adjustments will affect the liability for federal income and excess profits taxes, consideration has been given thereto in determining the amount required in the reserve. Furthermore, as it is recognized that the Company will eventually be required to adjust its operations to a peace-time economy, provision for an applicable portion of the expenses of such adjustment has been considered in establishing the reserve.

NOTE 6:

Sales under fixed price contracts are recorded as individual units are delivered. Sales under cost-plus-a-fixed-fee contracts, which include applicable fees, are recorded as expenditures are made or accrued.

Costs of sales under fixed price contracts are computed on the basis of estimated average cost of the units of the contract. As a con-

tract progresses toward completion, the actual average cost per unit is more nearly determinable, and cost of sales is adjusted to reflect such average cost. Under cost-plus-a-fixed-fee contracts, costs of sales are computed on the basis of expenditures made or accrued.

NOTE 7:

The Company's subsidiary is contingently liable for the refund of proceeds from the sales of engineering and other information and manufacturing rights in the event of cancellation by the government of the contracts of the companies to whom the information is furnished and the rights granted, in amounts varying with the performance of such contracts, but not in excess of \$2,317,224.20 at December 31, 1941.

NOTE 8:

Prior to June 5, 1941 the Company was acquiring certain emergency facilities under an Emergency Plant Facilities contract with the United States. On that date the Company entered into agreements which provided for the cancellation of such Emergency Plant Facilities contract and the purchase by Defense Plant Corporation of the facilities acquired and to be acquired pursuant to such contract. The agreements also provided for lease of such facilities to the Company by Defense Plant Corporation. Such facilities had been completed at December 31, 1941 and advances had been made to the Company by Defense Plant Corporation in an amount equal to the total cost thereof, although actual conveyance of title had not been consummated at that date. Neither the cost of these facilities nor the advances by Defense Plant Corporation are reflected in the accompanying financial statements.

ACCOUNTANTS' REPORT

To the Stockholders,

BOEING AIRPLANE COMPANY:

We have examined the consolidated balance sheet of Boeing Airplane Company and Subsidiary Company (excluding Canadian Subsidiary) as of December 31, 1941, and the consolidated statement of profit and loss and surplus accounts for the year then ended. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary.

A reserve for contract adjustments and indeterminate expenses resulting from war-time conditions has been provided by the Board of Directors in an amount considered adequate by them. The provision for federal income and excess profits taxes and state income tax has been estimated on the amount of taxable income determinable at this time. Any reduction of such taxes is dependent upon related adjustments of income applicable to the year, and the difference between any reduction of such taxes and adjustments of income has been taken into consideration in determining the amount of the reserve referred to above.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated profit and loss and surplus accounts present fairly the consolidated position of Boeing Airplane Company and Subsidiary Company (excluding Canadian Subsidiary) at December 31, 1941, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ALLEN R. SMART & CO.,
Certified Public Accountants.

Seattle, Washington,
March 11, 1942.

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET AS AT DECEMBER 31, 1941
 (IN CANADIAN DOLLARS)

ASSETS

Cash in Bank and on Hand.....	\$ 3,956.30
Accounts Receivable	389,609.39
Advance Payments on Material.....	40,789.14
Expended for Canadian Government re Construction of Tools and Equipment.....	108,863.29
 Inventories:	
Arising from Contracts with the Canadian Govern- ment, including delivered finished goods on which sale prices have not been fixed, work in process, raw materials, and supplies; title to sub- stantially all of which has passed to the Govern- ment—at Cost	\$2,714,320.59
Less Progress Payments.....	<u>2,201,204.10</u>
	\$ 513,116.49
Other—at lower of Cost or Market.....	<u>118,113.10</u>
	631,229.59
TOTAL CURRENT ASSETS (Note 1)....	\$1,174,447.71
Fixed Assets, less Reserve for Depreciation.....	166,960.93
Deferred Charges	<u>10,981.08</u>
 TOTAL ASSETS	<u>\$1,352,389.72</u>

LIABILITIES

Notes and Overdraft Payable to Bank (Note 1).....	\$ 279,145.69
Accounts Payable and Accrued Expenses.....	529,324.39
Reserve for Contract Adjustments.....	35,000.00
Reserve for Income and Profits Taxes (Note 2).....	<u>68,000.00</u>
 TOTAL CURRENT LIABILITIES.....	<u>\$ 911,4 0.08</u>
Advances from U. S. Affiliated Companies.....	129,304.42
Capital Stock:	
Preferred 6% Cumulative Redeemable (Note 3)	\$ 683,000.00
Common Stock—No Par Value.....	<u>10,046.20</u>
Surplus (Deficit) as at December 31st, 1940.....	<u>\$ 454,229.54*</u>
Add Net Profit for the year.....	<u>72,798.56</u>
 TOTAL LIABILITIES	<u>\$1,352,389.72</u>

*Italics * denotes red figures.*

NOTE 1—Proceeds from certain Contracts, including Receivables of \$339,000.69, are pledged to secure Notes Payable to Bank of \$213,427.39, and Bank Overdraft of \$65,718.30 representing outstanding cheques.

NOTE 2—Provision has been made for estimated Income and Profits Taxes. The exact amount thereof cannot be determined pending hearing of Company's application before Board of Referees.

NOTE 3—Dividends on the 6% Cumulative Redeemable Preference Shares are in arrears in the amount of \$272,710.00.

To the Shareholders,

BOEING AIRCRAFT OF CANADA LIMITED:

We have examined the Condensed Balance Sheet of Boeing Aircraft of Canada Limited as at December 31st, 1941, and have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods, at times and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1941, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants.

Vancouver, B. C.

February 28th, 1942.

BOARD OF DIRECTORS

WILLIAM M. ALLEN Of Messrs. Todd, Holman, Sprague & Allen	FRED P. LAUDAN <i>Vice-President</i> Boeing Aircraft Company
HAROLD E. BOWMAN <i>Secretary and Treasurer</i> Boeing Aircraft Company	J. E. SCHAEFER <i>Vice-President</i> Wichita, Kansas
DARRAH CORBET Seattle, Washington	DIETRICH SCHMITZ Seattle, Washington
CLAIRE L. EGTVEDT <i>Chairman</i> Boeing Aircraft Company	H. O. WEST <i>Executive Vice-President</i> Boeing Aircraft Company
P. G. JOHNSON <i>President and General Manager</i> Boeing Aircraft Company	

OFFICERS

P. G. JOHNSON.....	<i>President</i>
CLAIRE L. EGTVEDT.....	<i>Chairman</i>
H. O. WEST.....	<i>Executive Vice-President</i>
J. E. SCHAEFER.....	<i>Vice-President</i>
JAMES P. MURRAY.....	<i>Vice-President</i>
HAROLD E. BOWMAN.....	<i>Secretary and Treasurer</i>

General Counsel

TODD, HOLMAN, SPRAGUE & ALLEN

General Auditors

ALLEN R. SMART & CO.

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK



